

VZCZCXRO9533

RR RUEHAO RUEHCD RUEHGA RUEHGD RUEHHA RUEHHO RUEHMC RUEHNG RUEHNL
RUEHQU RUEHRD RUEHRG RUEHRS RUEHTM RUEHVC
DE RUEHCV #2074/01 2981906
ZNY CCCCC ZZH
R 251906Z OCT 07
FM AMEMBASSY CARACAS
TO RUEHC/SECSTATE WASHDC 9971
INFO RUEHWH/WESTERN HEMISPHERIC AFFAIRS DIPL POSTS
RUMIAAA/HQ USSOUTHCOM MIAMI FL
RUCPDO/DEPT OF COMMERCE
RUEATRS/DEPT OF TREASURY
RHEHNSC/NSC WASHDC

C O N F I D E N T I A L SECTION 01 OF 03 CARACAS 002074

SIPDIS

SIPDIS

SECSTATE PASS DEPARTMENT OF AGRICULTURE FAS ELECTRONICALLY

E.O. 12958: DECL: 10/04/2017

TAGS: [ECON](#) [EAGR](#) [ALOW](#) [VE](#)

SUBJECT: AGRICULTURE EXPERTS PREDICT CORN, WHEAT, AND MILK
SHORTAGES IN VENEZUELA

REF: A. CARACAS 597

[1](#)B. CARACAS 994

Classified By: ECONOMIC COUNSELOR ANDREW N. BOWEN FOR REASON 1.4 (D)

[1](#)1. (SBU) Summary: Milk, white corn and wheat which make up Venezuela's three most consumed products (milk, pre-cooked corn meal, and pasta), are all facing worsening or impending shortages. Global price increases combined with local price controls have led to the current milk shortage and an emerging wheat shortage. Bad weather, price controls, and smuggling into Colombia could also cause a white corn shortage, the key ingredient in numerous Venezuelan staple dishes. The continued oil windfall has further magnified demand. Shortages of these staples would hurt BRV prestige and could provide it with an excuse to lash out against large private producers. End Summary.

"We are Corn"

[1](#)2. (SBU) After milk, white-corn based products are the most consumed food staple in Venezuela. White-corn is used to make pre-cooked corn meal (Harina de Maiz precocida), which is the key ingredient in various Venezuelan staples such as the Empanada and the Arepa. The Arepa is the Venezuelan version of the Mexican tortilla and is consumed by lower income Venezuelans at least once or twice a day. Given the importance of corn in Venezuela, it is no surprise that the Ministry of Popular Power for Agriculture and Land (MPPAT) lists corn as a strategic crop in its Comprehensive Plan for Agriculture Development (2007 - 2008.) For the BRV corn has become the key benchmark for measuring agriculture productivity, partly for its symbolic and dietary importance, but mainly because it is one of the few crops for which it can claim a production increase.

The Corn Controversy

[1](#)3. (SBU) During his September 2 "Alo Presidente" television show held in a newly inaugurated Iranian corn processing plant, Chavez claimed the BRV had increased corn production from 1 million metric tons (mmt) in 1998 to 2.5 mmt in 2007. During the September 27 - 30 "We Are Corn" conference in Caracas, the Ministry of Popular Power for Agriculture and Land (MPPAT) announced plans to further increase corn production from 2.25 million metric tons in 2006 to 4 mmt by [1](#)2010. This ambitious production target was set to help meet

Chavez' goal of turning Venezuela into the great corn producer of Latin America, a corn exporter, and provider of corn to needy countries who Chavez asserts can no longer afford it due to the USG ethanol program (Reftel A). (Note: The "We Are Corn" slogan is a reference to the Mayan creation belief that the first "true men" were created from corn, an idea Chavez has drawn on to help make his argument for replacing/substituting imported wheat with domestically produced corn in the Venezuelan diet. End Note.)

¶4. (SBU) Despite lofty BRV production goals and claims, calculating the real level of corn production in Venezuela is a difficult task given the lack of reliable statistics and the highly political nature of the data. The president of the National Confederation of the Associations of Agriculture Producers (FEDEAGRO), contacts in the processed-food giant Polar, and agriculture experts have all indicated that the real level of corn production for this year's harvest is likely to only reach 1.8 mmt (80 percent of this is white corn) due to poor weather. Carlos Machado, acting director of the Institute for Graduate Studies of Administration (IESA) and an agriculture specialist, also said if Venezuela only produced approximately 1.8 mmt of corn, this would result in shortages. Although Ag-Minister Juau neglected to publicly share any production doubts with Chavez during the September 2 "Alo Presidente," even he has said that Venezuela would not produce 2.5 mmt goal of corn in 2007 due to weather conditions. Instead, he claimed that Venezuela would produce 2.2 mmt, which he argued would allow Venezuela to be "self-sufficient" in corn.

¶5. (C) Nevertheless, during an October 3 meeting, the Chairman of Polar's board of directors, Hernan Anzola, told EconOffs that Polar had to cut back its production of white-corn based Harina Pan (pre-cooked cornmeal), explaining

CARACAS 00002074 002 OF 003

that if it were to meet the market demand for Harina Pan, it would have exhausted its supply of white corn by July 2007. Anzola explained that a large factor driving this demand was that members of the D and E social classes (categorized as poor and very poor) have seen their real incomes grow by 30 percent in the past three years as the result of the oil windfall and government transfers. Polar produces 70 percent of the pre-cooked cornmeal in Venezuela and has not been permitted to import the little white corn available on the world market. Anzola accepted the possibility of a white corn shortage as early as November while other Polar contacts predicted white corn shortages as late as July of next year. On the topic of general shortages and scarcity, he noted that the head of a large supermarket chain had told him that in the last three months the number of sales receipts had increased some 300 percent, although total sales had not increased significantly. The increase in velocity of sales points to people making more trips to the stores in search of items. Separately, Anzola confessed that although they were Venezuela's largest private industrial concern, they had no interlocutor in the BRV.

Venezuelan Food Smuggled across the Border

¶6. (C) Another factor aggravating any potential corn scarcity is the amount of corn being diverted to Colombia. Between Venezuelan price controls and Colombia's appreciating currency, it is increasingly more profitable to illegally divert agriculture products through the porous Venezuelan-Colombian border than sell them in Venezuela. Gustavo Moreno, the president of FEDEAGRO, told the Venezuelan press that producers receive 560 bolivars (USD 0.26) in Venezuela for one kilo of white corn compared to 800 bolivars (USD 0.37) in Colombia.

¶7. (SBU) The official peso/bolivar exchange rate is approximately 1:1. However, unlike Venezuela, Colombia has

no foreign exchange restrictions, making it possible to change pesos to dollars at a rate of 2,011 pesos per dollar. Venezuelans who illegally export corn to Colombia can convert their pesos to dollars, and then convert the dollars into bolivars at the Venezuelan parallel rate which currently stands at around 5950 Bs/dollars. Therefore Venezuelan producers could sell 500 kilos of white corn at 800 pesos per kilo in Colombia, covert the pesos to dollars and then bolivars through the parallel rate, and end up with 1,118,490 Bs (USD 520). This same producer would only receive 280,000 Bs (USD 130) if the 500 kilos of white corn were sold in Venezuela. In this example, illicitly diverting food would increase revenue by 299 percent.

18. (C) Agriculture contacts have also told us that the Venezuelan National Guard has facilitated this illicit commerce, and that tons of food destined for Chavez' subsidized grocery stores (Mercals) have ended up in Colombia. To combat smuggling, on September 5, the Ministry of Popular Power for Food issued a resolution restating the prohibition against the extraction or exportation of corn from Venezuela, explaining that this was a crime that could result in prosecution. However, during an August 29 trip by emboffs to the state of Portuguesa (known as the "barn of Venezuela"), Juan Fernando Palacios Lugo, the president of the 529 member farm association, Asoportuguesa, told EconOffs that food was increasingly being diverted to Colombia. He estimated that approximately 50 percent of the rice stored in Asoportuguesa's Maracaibo warehouse was smuggled across the border. He noted wryly that Zulia, one of the Venezuelan states bordering Colombia, has "one of the highest rice per capita consumption (rates) in the world."

Wheat, the Imperial Substitute

19. (SBU) Wheat, the third most consumed product in Venezuela, also faces a possible shortage due to significant global price increases and the unwillingness of the BRV to raise the controlled price for pasta. Since Venezuela imports nearly all of its wheat, the local market is especially vulnerable to abrupt changes in the world price. The price Venezuelan importers are paying for wheat has dramatically increased from USD 220 per ton in July to USD 850 per ton on October 25. This 286 percent price increase has intensified pressure to raise prices on staples such as pasta. Industries sources

CARACAS 00002074 003 OF 003

argue that they cannot keep selling pasta at the regulated price of 1,740 bolivars per kilo (USD 0.80 per kilo at the official rate). The Association of Venezuelan Pasta Manufacturers (AVEPASTA) has asked for a 58 percent increase in the controlled price for pasta and have argued that the fair price of pasta should be 4100 Bs (USD 1.91) per kilo. The controlled price of pasta in Venezuela has not changed since April 2004.

10 (SBU) According to a recent report by the daily El Universal, pasta warehouses have reduced their inventory by nearly 30 percent in the last three months. AVEPASTA has also estimated that 10 of the 14 pasta producers in Venezuela may have to shutdown due to the shortage in raw materials. With operating costs nearly 130 percent higher than selling at the controlled prices, many importers have decided to not import rather than to operate at a loss. This impending scarcity in wheat could also increase the demand for white corn, a substitute for pasta, further adding to the probability of a corn shortage. (Note: According to the U.S. Bureau of the Census Trade Data, Venezuela imported 51 percent of its wheat (USD 168 million) from the United States, and has imported 25 percent more wheat from January to August in 2007 than during this same period in 2006. End Note.)

Shortages Worsen, Especially in Milk

¶11. (SBU) According to the Venezuelan polling firm, Datanalisis, surveys done in 60 supermarkets, bodegas, BRV subsidized Mercals, and informal shops in Caracas indicated that controlled priced goods are on average unavailable 23 percent of the time someone visits a market, up two percentage points from April. Seventy-two percent of the supermarkets in the Datanalisis poll also reported not having any milk to sell, and representatives from the Milk Processing Association (ASOPROLE) predicted that fresh milk will be in even shorter supply in October. Controlled market prices for processed milk products are also about 25 percent lower than the price of raw milk to the industry, which has acted as a disincentive for expanding output to meet the greater demand.

Comment

¶12. (C) Since February Venezuela has experienced rolling shortages in milk, eggs, meat, chicken, black beans, sugar, sardines, and white cheese (Reftel B). The Datanalisis poll also indicated that 51.7 percent of stores have no sugar, 43.5 percent have no meat, 40 percent have no corn oil, and 28.3 percent have no chicken. However given the symbolic and dietary importance of corn, wheat, and milk, worsening shortages of these items would cause Venezuelans to view shortages in a much more severe light. Thus far, Chavez and his Minister of Food have blamed the food shortages on hyperbole and "media conspiracy." However, if the shortages worsen, the BRV would be forced to find another scapegoat, which likely would be large private food producers and distributors.

FRENCH